HLIB Research
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MCE Holdings

Right place at the right time

MCE, a Tier-1 supplier of automotive electronics and mechatronics, is poised for a multi-year growth phase driven by its landmark Perodua EV contract, which marks entry into high-value infotainment and ADAS, as well as strategic US wins with Dorman and JVIS that broaden its export footprint. The group is also diversifying into new verticals via non-automotive manufacturing, ADAS mmWave radar production, Chery's localisation supply chain and the Indian automotive market. We initiate coverage on MCE with a BUY rating and TP of RM2.40 based on mid-FY27 partially diluted EPS of 16 sen, viewing MCE as a resilient, scalable proxy to Malaysia's transition toward high-value auto electronics and the global "China + N" supply chain realignment.

Company background. MCE is a Tier-1 supplier of OEM automotive electronics and mechatronics with key customers Perodua, Proton and Toyota. Its portfolio spans electronics and mechatronics, with new developments in infotainment, meter clusters and ADAS for both EVs and ICE vehicles. MCE operates plants in JB and Klang and is building a high-tech Serendah plant.

Breakthrough entry into EV supply chain. MCE's contract win with Perodua mark its first entry into the EV supply chain, securing supply of high-value infotainment and ADAS components, with revenue per vehicle at ~RM3k - 10x its typical value. With Perodua targeting an affordable launch price, we estimate MCE's annual revenue from this programme could amount to RM39.8–59.7m per annum, or 26-38% of FY24 revenue, making it a powerful earnings catalyst.

Expanding into the US market. MCE is accelerating its global expansion with two strategic US wins for Nasdaq-listed Dorman in the automotive aftermarket and Michigan-based JVIS, a supplier to major OEMs. The Dorman deal taps a large, recurring market. JVIS awarded two multi-year mechatronics contracts worth RM91.7m over 60 months, adding ~RM18.3m annually. Secured via competitive tenders, these wins highlight MCE's technical credibility and global competitiveness.

Expanding to new growth verticals and market. MCE is actively diversifying its revenue base through multiple strategic partnerships. A Mar 2025 JV with Hong Kong's Sounding Industries leverages Johor capacity to produce non-automotive products. A May 2025 JV with China's Nanjing Chuhang marks entry into ADAS via mmWave radar production at Serendah. MoUs with Chery-linked suppliers Cheling and Atech position MCE in Chery's Malaysian localisation supply chain. In Nov 2024, a JV with India's Abhishek Electronics targets the fast-growing Indian auto market. These moves diversify MCE's products, markets, and growth drivers while limiting upfront investment.

Forecast. We project MCE's FY25–27 core earnings to grow at a CAGR of 15.8% with estimated FY25-27 earnings of RM20.2/21.4/27.0m. FY26 growth will be driven by contribution from Dorman and non-auto segment starting in 1HFY26, with a stronger lift in 2HFY26 from Perodua's EV supply. FY27 will see the full-year EV impact, maiden JVIS contribution, and scaling of Dorman and non-auto orders. MCE has a robust balance sheet with net cash position of RM83.6m (59.8 sen/share, ~42% of market cap).

Initiate with BUY and TP of RM2.40, based on 15x PE on mid-FY27 partially diluted EPS of 16 sen. MCE is entering a pivotal growth phase. Years of investment in engineering and technology now position MCE to ride structural shifts in Malaysia's auto industry towards localisation, high-value electronics and EV adoption, while benefiting from global "China +N" supply chain diversification. Anchored by stable demand from Proton and Perodua and expanding via high-margin electronics, exports and strategic JVs, MCE offers a resilient, scalable play on the sector's long-term transformation.

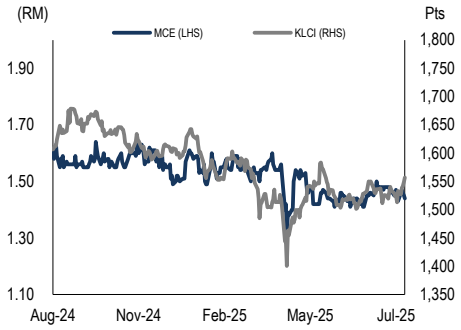
BUY (Initiate)

Target Price:	**RM2.40**
Previously:	**N.A.**
Current Price:	**RM1.44**

Capital upside	66.7%
Dividend yield	6.3%
Expected total return	73.0%

Sector coverage: Automotive
Company description: MCE is principally involved in the manufacturing and supply of electronics and mechatronics auto components.

Share price



Historical return (%)	1M	3M	12M
Absolute	-4.0	1.4	-12.2
Relative	-5.3	0.7	-10.0

Stock information

Bloomberg ticker	MCE MK
Bursa code	7004
Issued shares (m)	140
Market capitalisation (RM m)	201
3-mth average volume ('000)	96
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★

Major shareholders

Dulcet One Holdings	16.9%
Woo Chiew Loong	7.4%
Goh Kar Chun	5.5%

Earnings summary

FYE (July)	FY24	FY25f	FY26f
PATMI – core	20.4	20.2	21.4
EPS – core (sen)	14.6	14.4	15.3
P/E (x)	9.9	10.0	9.4

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE July	FY23	FY24	FY25f	FY26f	FY27f
Cash	9.1	15.8	52.1	54.8	60.7
Short term investments	11.9	33.7	33.7	33.7	33.7
Receivables	27.5	21.8	23.1	28.3	32.7
Inventories	24.2	17.7	16.0	20.4	23.8
PPE	67.8	46.7	61.0	59.9	58.9
Others	88.7	102.3	83.5	82.9	82.4
Assets	**161.3**	**191.4**	**208.3**	**220.0**	**233.2**
Payables	25.0	38.0	37.3	41.5	45.0
Debt	13.3	14.4	24.4	22.4	20.4
Others	5.3	8.6	8.6	8.6	8.6
Liabilities	**43.6**	**61.0**	**70.3**	**72.5**	**74.0**
Shareholder's equity	117.8	130.0	137.7	147.3	159.0
Minority interest	-	0.4	0.3	0.2	0.2
Equity	**117.8**	**130.4**	**138.0**	**147.5**	**159.2**

Income statement

FYE July	FY23	FY24	FY25f	FY26f	FY27f
Revenue	**154.9**	**155.7**	**150.0**	**188.0**	**220.0**
Operating cost	(133.6)	(133.3)	(124.1)	(159.0)	(183.7)
D&A	(4.7)	(4.7)	(4.7)	(7.1)	(7.0)
EBIT	**21.3**	**22.4**	**25.9**	**29.0**	**36.3**
Finance cost	(1.2)	(0.8)	(0.8)	(0.9)	(0.8)
Pretax profit	**20.0**	**21.6**	**25.1**	**28.1**	**35.5**
Taxation	(4.3)	(5.7)	(5.0)	(6.7)	(8.5)
Minority Interest	0.0	0.1	0.1	0.1	0.1
Reported PATAMI	15.4	16.0	20.2	21.4	27.0
Exceptionals	(1.0)	(4.4)	0.0	0.0	0.0
Core PATAMI	**16.4**	**20.4**	**20.2**	**21.4**	**27.0**
Basic shares (m)	139.9	139.9	139.9	139.9	139.9

Cash Flow Statement

FYE July	FY23	FY24	FY25f	FY26f	FY27f
Profit before taxation	20.0	21.6	25.1	28.1	35.5
D&A	4.7	4.7	4.7	7.1	7.0
Working capital	(1.4)	18.9	(0.2)	(5.4)	(4.3)
Taxation	(4.3)	(5.7)	(5.0)	(6.7)	(8.5)
Others	1.8	2.1	(0.0)	(0.0)	(0.0)
CFO	**20.8**	**41.6**	**24.6**	**23.1**	**29.6**
Capex	(4.7)	(11.4)	(19.5)	(6.5)	(6.5)
Others	(9.6)	(19.7)	33.7	-	-
CFI	**(14.3)**	**(31.1)**	**14.2**	**(6.5)**	**(6.5)**
Dividends	(1.5)	(3.7)	(12.5)	(11.8)	(15.3)
Others	0.3	(0.1)	10.0	(2.0)	(2.0)
CFF	**(1.2)**	**(3.8)**	**(2.5)**	**(13.8)**	**(17.3)**
Net cash flow	**5.3**	**6.7**	**36.2**	**2.7**	**5.9**
Beginning cash	3.8	9.1	15.8	52.1	54.8
Ending cash	9.1	15.8	52.1	54.8	60.7

Valuation ratios

FYE July	FY23	FY24	FY25f	FY26f	FY27f
Net DPS (sen)	2.8	3.0	9.0	8.5	11.0
Yield (%)	1.9	2.1	6.3	5.9	7.6
Core EPS (sen)	11.7	14.6	14.4	15.3	19.3
P/E (x)	12.3	9.9	10.0	9.4	7.5
Market capitalization (m)	201.4	201.4	201.4	201.4	201.4
Net debt (m)	4.2	-	-	-	-
Net gearing (%)	3.6%	CASH	CASH	CASH	CASH
BV / share	0.8	0.9	1.0	1.1	1.1
P/BV (x)	1.7	1.5	1.5	1.4	1.3
ROA (%)	10.2	10.6	9.7	9.7	11.6
ROE (%)	13.9	15.6	14.6	14.5	17.0
Enterprise value	192.3	185.6	149.4	146.6	140.8
EV/ EBITDA (x)	7.4	6.8	4.9	4.1	3.3

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Company Background

Company history. Founded in 1990, MCE Holdings Berhad (MCE) began as a manufacturer of automotive components such as car alarm systems, central locking systems and power window regulators. The company was subsequently listed on the Main Market of Bursa Malaysia in 1997. Over the decades, MCE has evolved into a key Tier-1 supplier, manufacturing and supplying a broad range of OEM automotive electronics and mechatronics components for leading carmakers in Malaysia and the broader regional market.

Existing portfolio. Some of the products it is currently manufacturing include:
(i) electronics – functional switches, automotive lighting, wireless and usb charger, parking sensor system, camera system, digital video recorder, anti-theft keyless systems
(ii) mechatronics – power window regulator, plastic parts

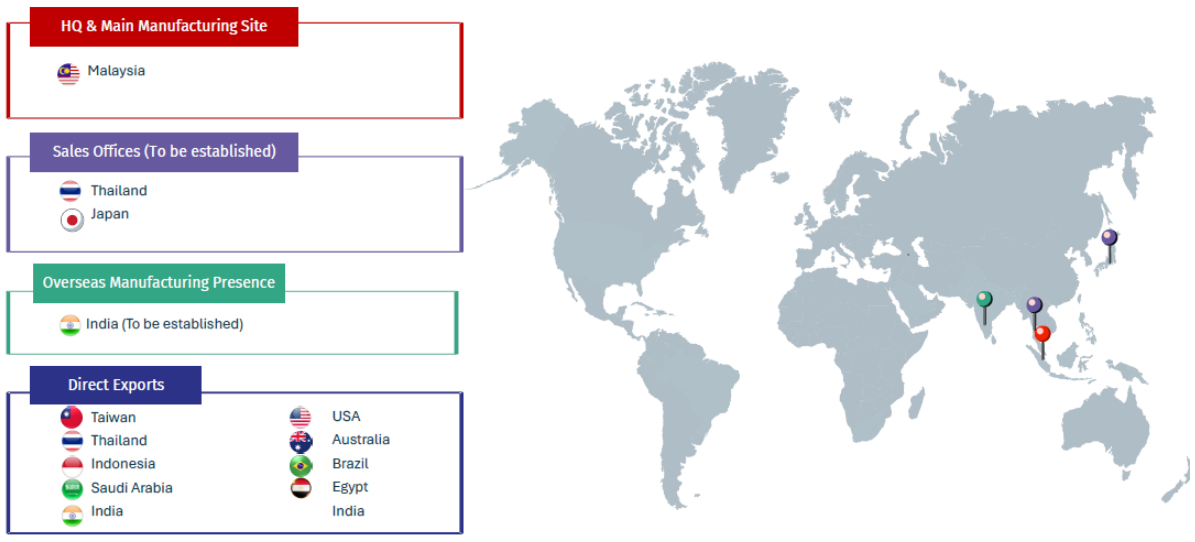
Expanding into new electronics. MCE is currently developing new electronic products that are heavily utilised in both electric vehicles (EV) and internal combustion engine (ICE) vehicles. These include infotainment, meter cluster and advanced driver assistance system technologies (ADAS).

Figure #1 MCE existing product portfolio

MCE

Customer segmentation. MCE's revenue is currently mainly anchored by Malaysia's two national carmakers, with an estimated 40% contribution from Perodua and another 40% from Proton. The remaining 20% is largely derived from the supply to Toyota for both the domestic and the regional export market. Through its collaboration with Toyota, MCE's components are exported to a diverse range of international markets, including Thailand, Taiwan, Indonesia, Brazil, and Saudi Arabia, among others.

Figure #2 MCE regional presence



MCE

Facilities and operations. MCE currently operates three facilities located in Johor Bahru, Klang, and the upcoming Serendah plant. The Johor Bahru facility, which also houses the group's headquarters, focuses primarily on the production of automotive electronic components, while the Klang plant handles the manufacturing of mechatronics and mechanical parts. Both facilities have an estimated annual revenue capacity of RM100m each, supporting the group's core OEM customer base.

New Serendah plant. To support its growth ambitions and diversification into advanced electronics, MCE is setting up a new manufacturing plant in Serendah on an 8.3-acre site. The development will be executed in two phases:

- **Phase 1**, occupying 3 acres, is on track for completion by end-CY2025 and is expected to add RM200m in revenue capacity.
- **Phase 2**, to be developed at a later stage, will add a further RM300m in capacity, bringing the total potential to RM500m annually.

Figure #3 MCE new Serendah plant – Phase 1

MCE

The Serendah facility is designed as a high-tech, future-ready plant, featuring a clean room environment and electrostatic discharge flooring to meet stringent standards required for the production of complex and high-value electronic components. The plant will serve as the group's centre for high-technology manufacturing, positioning MCE to scale into the international market, where product quality and regulatory compliance are significantly more demanding.

Industry Overview

Malaysia automotive landscape

National cars – Proton and Perodua. Under the National Automotive Policy (NAP) 2020, the criteria for being recognised as a national car project, formally termed a Malaysian Vehicle Project (MVP), are clearly defined by the Ministry of Investment, Trade and Industry (MITI). Proton and Perodua have been officially confirmed by MITI as meeting all MVP requirements, positioning them as the only two national carmakers eligible for full policy support and incentives under this framework.

Market leadership backed by strategic incentives. Proton and Perodua collectively command over 60% of Malaysia's total industry volume (TIV), making them the dominant players in the domestic automotive landscape. Their MVP status grants them a suite of powerful fiscal and strategic incentives aimed at encouraging local manufacturing, R&D, and localisation, including:

- **Pioneer status**: Income tax exemption of 70% to 100% for 5–10 years, depending on the scale and strategic alignment of the investment

- **Investment Tax Allowance (ITA)**: Covers up to 60% of qualifying capital expenditure, offset against 70% of statutory income
- **Excise duty relief**: Eligibility for significant reductions or full exemptions (up to 100%) depending on localisation levels and component sourcing

These incentives translate into substantial cost advantages, allowing national carmakers to offer vehicles at significantly more affordable price points relative to foreign brands.

Figure #4 Summary of MVP eligibility requirements.

Requirement Area	MVP Criteria under NAP 2020
Ownership	Majority Malaysian-owned; private-sector led
Supply Chain	At least 75% local vendors
R&D & Engineering	Significant local R&D in upper-body or vehicle systems
Employment	98% local workforce
Technology Ecosystem	Must align with Next-Generation Vehicle (NxGV), Mobility-as-a-Service (MaaS), and IR4.0 frameworks

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Import tariffs and barriers for foreign brands. In contrast, fully built-up (CBU) vehicle imports from foreign car brands face significant cost and regulatory hurdles in Malaysia. For non-ASEAN countries, CBU vehicles are typically subject to a 30% import duty under the Most Favoured Nation (MFN) schedule. However, under the ASEAN Common Effective Preferential Tariff Free Trade Agreement (ASEAN CEPT FTA), vehicles sourced from member states can enjoy reduced import duties of 0–10%, provided they meet the required regional content thresholds. In addition to import duties, all foreign vehicles, whether from ASEAN or non-ASEAN countries, are subject to steep excise duties ranging from 60% to 105%, depending on engine displacement and vehicle class (e.g. SUV, MPV, passenger car). These layered taxes significantly inflate the retail price of imported cars in Malaysia, effectively acting as a protective barrier for domestic players and enhancing the cost competitiveness of national brands like Proton and Perodua.

Figure #5 Trade barriers for completely built-up car imports

Trade barrier	Description
Approved Permit (AP)	Quota-based license; caps foreign imports to ~10% of the market
Import Duty	30% standard; 0–10% under ASEAN CEPT (if sourced within ASEAN)
Excise Duty	Extremely high—60% to 105% plus 10% sales tax—on CBU vehicles, particularly large engines
Gazette Pricing	Government-set valuation for taxation, often exceeding actual transaction prices

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Domestic policies incentivise local manufacturing. Malaysia promotes local assembly through favourable tax treatment for completely knocked-down (CKD) vehicles. While CBU imports from non-FTA countries generally attract a 30% import duty under the Most Favoured Nation (MFN) rate, CKD kits incur a lower import duty of 0–10%, depending on the degree of disassembly and the packaging format. However, under the ASEAN CEPT FTA, both CBU and CKD vehicles can enjoy 0% import duty if sourced from ASEAN partners and compliant with origin rules. Although both CBU and CKD vehicles are subject to excise duty and the 10% SST, CKDs may receive partial or full exemptions based on localisation levels and eligibility for national incentives. For EVs, Malaysia offers differentiated tax treatments:

- CBU EVs enjoy full import and excise duty exemptions until end-2025
- CKD EVs enjoy full import, excise, and SST exemptions until end-2027

These policies are intended to stimulate local assembly, supply chain integration, and broader industrial development.

Figure #6 CKU vs CBU difference in Malaysia

Feature	CBU Vehicles	CKD Vehicles
Import Duty (MFN)	30%	0–10%
Excise Duty	60–105%	Same rates; more cases of relief
Sales Tax	10%	0–10% (often exempt or reduced)
EV Tax Treatment	Exempt until 2025	Exempt until 2027

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Customised incentives to attract strategic investments. Beyond broad-based tax incentives, Malaysia provides customised incentive packages for strategic investments. These are negotiated directly with the Ministry of Investment, Trade and Industry (MITI) and the Malaysia Automotive, Robotics and IoT Institute (MARii). The incentives can be tailored around key project criteria such as localisation levels, R&D commitments, technology transfer, and supply chain development. The goal is to build a deeper automotive ecosystem, encourage technology advancement, and create high-skilled employment. This flexible approach allows Malaysia to respond more effectively to investor needs and

strengthens its appeal as a regional hub for global Original Equipment Manufacturers (OEMs) and Tier-1 suppliers.

Aligning with the China + N diversification strategy. Malaysia's investment approach aligns well with the "China + N" strategy, where multinational companies seek to diversify operations beyond China due to rising costs, trade disruptions, and geopolitical uncertainty. Malaysia offers a compelling value proposition, including strategic location, integrated supply chains, policy support, and trade access via ASEAN and other FTAs.

This has already translated into tangible outcomes:

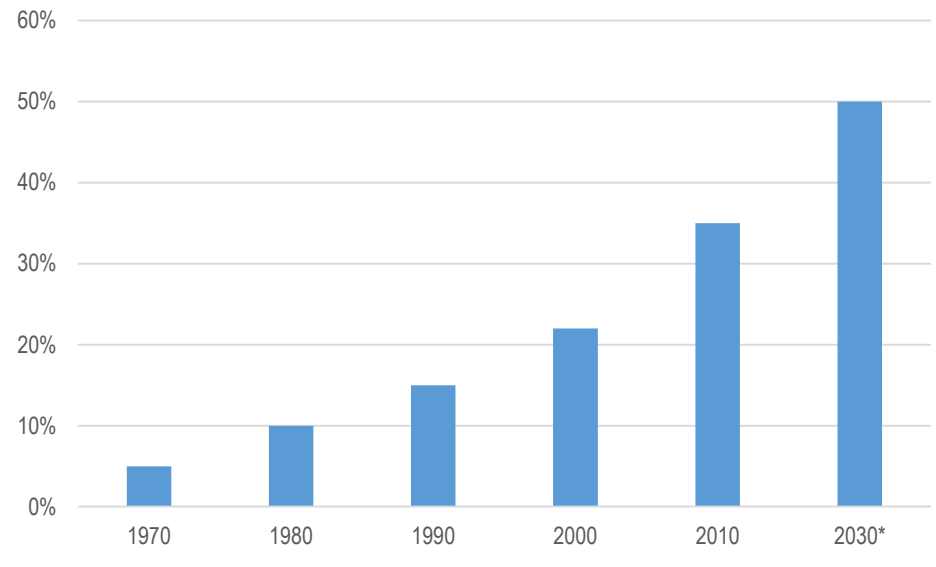
- Chery has invested in both Kulim (via Inokom) and Shah Alam, with plans to expand capacity further via a new industrial park in Hulu Langat.
- Stellantis, in partnership with Leapmotor, is localising EV assembly in Gurun, Kedah, positioning Malaysia as its ASEAN hub.

These moves underscore the effectiveness of Malaysia's localisation incentives and industrial policy framework in capturing high-value automotive investments and reinforcing its role in the regional supply chain.

Evolution of electronics in vehicle

Electronics content of a car has risen sharply over the years. Electronics cost as a percentage of total car cost had increased from ~5% in 1970 to a projected of half of the total car cost by 2030.

Figure #7 Automotive electronics cost as a percentage of total car cost



Statista
**In 2030, it is forecasted that on average, electronic systems will account for half of the total price of a new car.*

From safety to intelligence. The role of electronics in vehicles has evolved dramatically over the past few decades. In the 1980s–1990s, electronics made up roughly 10 - 15% of a vehicle's cost, primarily focused on improving safety and basic efficiency. Key developments included the introduction of anti-lock braking systems (ABS) to prevent wheel lock during hard braking and airbags to enhance passenger protection.

Moving into the 2000s to early 2010s, the industry shifted towards comfort and user experience. Electronics content increased to approximately 20–30% of vehicle cost, driven by features like infotainment systems and the Body Control Module (BCM), which is a centralized unit managing numerous body-related functions such as lighting, windows, door locks, and wipers. These features reflected rising consumer expectations for smarter and more convenient vehicles.

The road to electrification and autonomy. From the 2010s onward, electronics became increasingly integral to enabling intelligent driving features. The rise of Advanced Driver Assistance Systems (ADAS), including radar, cameras, lane-keeping assist, and adaptive cruise control pushed electronics share to around 35–45% in internal combustion engine (ICE) vehicles.

In the 2020s, with the accelerated adoption of EVs, electronics now account for approximately 50% of total vehicle cost. EVs rely heavily on Battery Management Systems (BMS) to monitor battery health and safety as well as power electronics to convert DC from the battery into AC to power the motor, replacing traditional mechanical drivetrain components.

Looking ahead, the shift toward autonomous driving is expected to push electronics content even higher, estimated to reach 60–70% of total vehicle cost in advanced EVs. Self-driving systems depend on technologies such as LiDAR (which maps the environment using laser light) and AI chips, which serve as the decision-making core by processing real-time data from multiple sensors to enable safe autonomous operation.

Figure #8 Evolution of electronics in vehicles

No	Phase	Era	Focus	Electronics content	Driver
1	Basic control	1980s–1990s	Efficiency & passive safety	10–15%	ECUs, ABS, airbag modules
2	Comfort era	2000s–2010	User experience & convenience	20–30%	BCM, infotainment, power features
3	Intelligence	2010s–2020s	Active safety & connectivity	35–45%	ADAS, cameras, connected services
4	Electrification (EV era)	2020s	Replacing mechanical systems	50–60%	BMS, inverters, power electronics
5	Autonomy	2025–2035	Self-driving, software-defined	>60%	LIDAR, AI chips, central compute

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Trump's auto tariff under Section 232

On 26 Mar 2025, Trump imposed a 25% tariff on imported automobiles and certain automobile parts under Section 232, citing threats to US national security. This tariff is applied to nearly all countries in the world, with conditional exemption applied to Canada and Mexico, provided if United States–Mexico–Canada Agreement (USMCA) rules of origin are met. Under USMCA, auto and parts must meet strict USMCA rules of origin (e.g. 75% North American content) to qualify. Otherwise, it is still subject to the full Section 232 tariffs.

Why did Trump impose Section 232 auto tariffs? Trump's justification for imposing Section 232 tariffs on automobiles and auto parts was based on national security grounds, under the authority of the Trade Expansion Act of 1962 (Section 232). High levels of automotive imports risk weakening the US domestic auto industry, including manufacturing capacity for cars, trucks, and critical parts. This erosion posed a national security risk, because the US needs a strong domestic industrial base to support the defence sector (e.g. military vehicle production, advanced electronics, materials science) and maintain technological leadership in mobility and transportation systems. Other than this, Trump's broader economic strategy is aimed at revitalising US manufacturing, and the auto sector was central to that vision. He believed that tariffs would incentivize local production and reduce outsourcing to lower-cost countries.

Section 232 coverage. The tariffs on automobiles took effect on 3 Apr 2025, while the tariffs on auto parts took effect on 3 May 2025. To-date the tariff remains in place. The affected parts are those falling under specific chapters of the Harmonized Tariff Schedule of the United States (HTSUS), namely, chapters 40, 70, 73, 83, 84, 85, 87, 90, and 94

- Tires and rubber parts (Ch. 40)
- Glass and glazing products (Ch. 70)
- Iron and steel components (Ch. 73)
- Vehicles and machinery parts (Ch. 83–87)
- Electrical and electronic assemblies (Ch. 84–85, 90)
- Other automotive accessories and equipment (Ch. 94)

The breadth of coverage across nine HTS chapters means that a vast array of components used in manufacturing cars, trucks, and parts in the US or for export are impacted.

Will Section 232 lead to US auto localisation? The Section 232 tariffs is targeted in localising automotive production in the US. We analyse below on whether this measure would be successful in reshoring the automotive supply chain to the US.

What could support localisation?

1) Tariff cost pressure on importers - The 25% tariff increases the cost of imported vehicles and parts, potentially nudging OEMs to shift more production to the US to avoid duties. This could benefit Tier-1/Tier-2 US-based suppliers in areas like plastic moulding, stamping, and basic electronics.

2) USMCA as a Compliance Incentive - The USMCA rules of origin require 75% North American content to avoid tariffs, pushing some OEMs to localise at least partially within the region (Mexico, Canada, US).

Why Section 232 may not succeed?

1) Automotive global supply chains are deeply entrenched
The US automotive supply chain is deeply globalised. A typical modern car assembled in the US contains between 20,000–30,000 individual parts. Of these, a substantial portion, often 40–60% of the vehicle total costs are imported. Many of these parts (especially complex electronics, sensors, or precision mechatronics) lack cost-competitive, scalable US manufacturing options. Even US-assembled cars like the Toyota Camry still import ~25–35% of components by value.

2) High US manufacturing costs – manufacturing costs including labour, compliance, energy, and real estate are much higher in the US vs ASEAN or Mexico.

3) Limited US supplier ecosystem for key tech - The US lacks scale in certain auto sub-sectors, like:

- Wiring harnesses (mostly made in Vietnam/Mexico)
- Touchscreens, ECUs, or lidar systems (Japan, Korea, Taiwan)
- Battery cells (China, South Korea)

Limited impact of Section 232 tariffs on US auto localisation. In our view, Section 232 tariffs are unlikely to significantly localise automotive production in the US in isolation. While the 25% tariff may incentivise some nearshoring to Mexico or Canada and encourage targeted reshoring for politically sensitive components, structural barriers remain formidable. These include the US's high production costs, lack of supply chain depth, and limited local capacity for critical components like sensors, mechatronics, and electronic modules.

Structural barriers to reshoring. Crucially, building a full-fledged automotive supply chain ecosystem takes years and often decades to mature. This long-term investment horizon contrasts sharply with the policy unpredictability of the Trump administration, where sudden reversals or shifts in trade strategy have constantly occurred. Given this uncertainty and the persistent cost disadvantage of US-based manufacturing, most automakers and Tier-1 suppliers are unlikely to commit to large-scale localisation solely on the back of Section 232. Instead, we anticipate that companies will adopt a cautious, incremental approach, opting to diversify sourcing among low-tariff jurisdictions rather than reshoring to the US at scale.

Investment Thesis

Technical edge in electronics align with structural industry shift

Stronger value proposition in electronics. While MCE manufactures both mechatronic and electronic car parts, its competitive edge lies in electronic components. These parts demand higher technical expertise, particularly in embedded software, algorithms, and complex engineering solutions. As a result, electronic components generally command higher margins and face less competition compared to mechatronic parts, which are often more commoditised. Moreover, the electronics content in vehicles has grown significantly, from just ~5% of a car's cost in the 1970s to an estimated 50% by 2030. By deepening its presence in this segment, MCE stands to extract greater value per vehicle over time, aligning itself with the broader transformation of the automotive industry.

Core strength in engineering and R&D. MCE's long-term strategy is anchored by its strong commitment to R&D and engineering capabilities. Of its 500-strong workforce, over 80 are experienced engineers, each averaging more than a decade of industry experience. Notably, more than half of its engineers are dedicated to R&D functions, which is a clear signal of the group's focus on innovation and advanced product development. This highly skilled talent base is central to MCE's ambition to scale in the increasingly complex and high-value segment of automotive electronics.

Initial barriers to entry despite technical capability. While the rising share of electronics in vehicles is a well-established trend, MCE only recently began gaining meaningful traction in this segment. This

delay wasn't due to a lack of technical capability. In fact, MCE had long possessed the expertise to manufacture electronic components. However, automotive customers typically require suppliers to demonstrate a proven track record before awarding contracts for complex electronics. Without a portfolio of past projects, MCE was at a competitive disadvantage, making it difficult to penetrate this segment despite its technical readiness.

Localisation tailwind for electronics. Historically, electronics have been among the last product groups to be localised in the automotive value chain. This is largely due to their technical complexity and small form factor, which makes them easy to import via CKD from principal manufacturing hubs abroad. However, as the Malaysian automotive industry matures, the government has shifted its focus toward localising higher-value and more technologically advanced components, including electronics. This push aligns with national objectives under the National Automotive Policy to deepen the domestic ecosystem and move up the value chain.

Strengthening foothold through Perodua. This policy shift has unlocked new opportunities for qualified local manufacturers like MCE. In tandem with the government's localisation drive, Perodua has begun awarding a wider scope of electronics-related contracts to local players like MCE. This growing support from a major national OEM was a critical enabler for MCE, providing the platform it needed to demonstrate its capabilities and establish a proven track record. As MCE consistently delivered on earlier projects, Perodua's confidence deepened, leading to a virtuous cycle of increasingly complex and higher-value contract awards. The strengthening of this relationship marks a turning point for MCE in securing a long-term foothold in the fast-growing automotive electronics segment.

Strategic breakthrough at a critical time. Having established a solid track record in electronics through its work with Perodua, MCE is now well-placed to secure contracts from new customers. In an industry where proven execution is key, its ability to deliver complex electronic components strengthens its credibility. This progress comes at a critical time, as it aligns with the accelerating industry shift toward higher electronics content driven by EV adoption and the push toward autonomous driving, a trend that positions MCE for long-term, high-value growth.

Breakthrough entry into EV supply chain

Strategic entry into EV supply chain. On 19 July 2024, MCE secured a landmark RM19.6m contract from Perodua to supply electronic and mechatronic components for an upcoming EV model over a 36-month period, with deliveries beginning in 2QFY26. This was followed by another contract win on 23 April 2025, which includes an estimated ~RM1.9m in value tied to the same EV. Together, these wins mark a pivotal breakthrough for MCE, not only as its first entry into an EV platform, but also for securing its first infotainment system supply contract, a product with significantly higher value per vehicle compared to its traditional offerings. The contracts also provide an initial foothold into the ADAS segment, through the supply of supporting equipment such as cameras and sensors.

Infotainment breakthrough drives 10x value uplift. The infotainment system serves as the vehicle's digital control hub, integrating navigation, media, Bluetooth, climate settings, and EV-specific functions like battery status, range, and charging. For MCE, the revenue from supplying to Perodua EV model is expected to reach RM3k per vehicle, which is a staggering 10x from its typical average value per car. This sharp uplift is highly significant, as it underscores MCE's move into higher-margin, more complex electronics. It validates the group's engineering capabilities while unlocking a powerful new growth driver as the auto industry shifts toward EVs and more software-defined vehicles.

Applicability beyond EVs. Importantly, several of the new products developed for the EV platform, while customised for EV applications, are also relevant to ICE models with different design specifications. Having an established track record on the EV platform gives MCE a strong reference point, making it a natural progression to promote these products to ICE models as well. This cross-platform potential broadens the addressable market and enhances the long-term earnings visibility, as MCE leverages its EV credentials to capture opportunities across the wider automotive landscape.

Stronger volume upside than contract assumption. The EV model that MCE is supplying for marks Perodua's first-ever entry into the EV market, with a targeted launch by end-CY25 at an indicative price below RM80k. This pricing strategy positions it as one of the most affordable EVs in Malaysia. Notably, MCE's contract value of RM21.5m is based on a conservative assumed production volume of 180 units per month. However, based on statements from Perodua's CEO, the group is targeting monthly production of 500 units, which is 2.8x higher than the contract assumption, suggesting ample room for upside.

Potential sales outperformance and earnings impact. For comparison, Proton launched its first EV model - e.MAS 7 in Dec 2024, with the Prime variant priced at RM109.8k and the Premium at RM123.8k. Proton sold 4,236 units in 1H25, averaging 706 units per month. Given that Perodua's EV will be priced at over 20% lower, it is likely to achieve even stronger sales traction, especially among mass-market buyers. We estimate Perodua EV monthly sales could range between 1,000–1,500 units per month. Based on this, the potential revenue for MCE could jump from RM7.2m to RM39.8 – RM59.7m annually, representing a 5.6 - 8.3x uplift from its contract value. To illustrate the scale, this represents about 26 - 38% of MCE's FY24 group revenue, underscoring the significance of this contract as a potential earnings catalyst if Perodua's EV volumes materialise as expected.

Figure #9 Sensitivity analysis of revenue based on Perodua EV car sales

Car sales	Expected revenue for 36 months (RM m)	Revenue per year (RM m)
180	21.5	7.2
500	59.7	19.9
1000	119.4	39.8
1500	179.2	59.7

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Expanding into new market in the US

MCE is making notable progress in expanding its export footprint by securing two new US-based customers - **Dorman Products (Dorman)** and **JVIS USA, LLC (JVIS**). Both customers represent meaningful strategic wins, not only for their revenue potential but also for demonstrating growing global recognition of MCE's capabilities in high-value, precision electronics. Importantly, any product-related investments for both contracts will be borne by the respective customers, thereby mitigating investment risk and preserving MCE's cash flow and working capital, which is a crucial advantage for sustainable scaling.

Dorman: strategic entry into aftermarket segment. Dorman is a Pennsylvania-based, Nasdaq-listed company and a leading supplier in the US automotive aftermarket, offering over 138,000 unique replacement and upgrade parts. MCE expects to deliver its first shipment in 1HFY25, with the initial revenue estimated to be approximately RM1m per month, translating to an estimated RM12m per annum, or around 8% of MCE's FY24 revenue. The scalability potential is strong, given Dorman's vast product range and ongoing efforts to diversify its supply chain.

Benefitting from China + N shift. This collaboration is strategically significant as it marks MCE's entry into a large and recurring automotive aftermarket segment, which is an industry characterised by steady demand and high replacement cycles. This positions MCE to tap into a new revenue stream that offers both scale and stability. At the same time, the deal reinforces MCE's attractiveness as a credible alternative supplier under the global "China + N" diversification strategy. Dorman's strategy to shift away from China-based sourcing provided MCE with a timely opportunity, one it was able to capitalise on effectively through its proven manufacturing capabilities and cost competitiveness.

JVIS – multi-year contracts for mechatronics. JVIS is a Michigan-based, privately held automotive supplier serving global OEMs including Stellantis, Ford, General Motors, Honda, Toyota and many more. In a short timeframe, MCE has secured two multi-year contracts to supply mechatronics components:

i. 12 Mar 2025 – Contract worth RM22.1m over 60 months, with first delivery in 1QFY27
ii. 23 Apr 2025 – Contract worth RM69.6m over 60 months, also beginning in 1QFY27

Collectively, these contracts are expected to contribute RM18.3m revenue per annum, making up around 12% of the group's FY24 revenue. These contracts were secured through competitive global tender process, underscoring MCE's ability to meet stringent international standards in terms of quality, cost, and delivery as well as its competitiveness in the global landscape.

Building momentum in global markets. Together, these wins reflect more than just incremental revenue, they signal a broader shift in MCE's positioning as a globally competitive supplier. The ability to secure Dorman through supply chain realignment and JVIS via technical merit demonstrates a well-balanced export strategy that leverages both macro trends and internal strengths. We believe this is the beginning of a virtuous cycle, where strong execution and proven capability open the door to repeat business and new customer acquisition in the global automotive space.

Diversifying beyond automotive with Sounding Industries JV

On 12 March 2025, MCE entered into a 50:50 joint venture with Hong Kong-based Sounding Industries Ltd to form Eagle MCE Technologies (Malaysia) Sdn Bhd. The JV will undertake contract manufacturing

of non-automotive products, including die-cutting machines, cosmetic product packaging, and associated tools. Under the agreement, MCE will oversee production setup, utility connections, licensing, staffing, and domestic market promotion. Meanwhile, Sounding Industries will contribute product design, engineering, tooling, and raw material sourcing (primarily from China and Hong Kong), alongside technical support.

Diversification with minimal capital outlay. This venture marks a deliberate step by MCE to diversify its revenue base beyond the automotive sector. Importantly, it does so with minimal financial risk, requiring less than RM1m in capex, funded internally, and utilising MCE's existing plant in Johor. No additional headcount is required, as MCE already possesses the engineering capability to produce the contracted items. From Sounding Industries' perspective, the partnership offers a strategic path to reduce its reliance on China-based manufacturing amid rising geopolitical and cost pressures. Initial shipments are targeted for 1HFY26, with a projected top-line contribution of RM6m annually. On an effective 50% basis, this equates to RM3m, or roughly 2% of MCE's FY24 revenue.

Laying groundwork for scalable non-auto growth. While the near-term financial impact is small, the JV carries strategic weight. It allows MCE to leverage underutilised capacity, expand into export-oriented consumer manufacturing, and establish a foothold in non-automotive contract manufacturing. With growing global demand for China + N alternatives, this venture could pave the way for future partnerships and scale-ups in adjacent verticals.

Entering the ADAS value chain via mmWave radar JV

On 19 May 2025, MCE announced the formation of a JV with China-based Nanjing Chuhang Technology Co. Ltd (NCT) to manufacture automotive millimetre-wave (mmWave) radar systems. The JV follows a MoU signed in Nov 2024 and marks a significant step in MCE's diversification into advanced automotive technologies. MCE will hold a 51% stake with an initial capital contribution of RM1.275m, while NCT will hold the remaining 49% with a RM1.225m investment. The new JV will focus on developing, producing, and marketing mmWave radar systems for both domestic and global markets (excluding China).

Who is NCT? Founded in 2017, NCT is a fast-growing Chinese player in the mmWave radar space, specialising in 77–79 GHz frequencies, which is critical for enabling Advanced Driver Assistance Systems (ADAS) and autonomous driving. NCT's founding team brings deep technical expertise from Germany, and the company is now a recognised radar supplier to major OEMs including Audi, Volkswagen, Toyota, Chery, Leapmotor, and VinFast, among others. Its track record and global reach make it a credible technology partner for MCE.

Why mmWave matters? mmWave radar is a cornerstone of the modern automotive sensor stack. It enables high-precision environmental sensing in real-time, supporting vital ADAS functionalities like adaptive cruise control, blind spot monitoring, lane departure warnings and collision avoidance. As automakers race to meet regulatory and consumer demand for safer, semi-autonomous vehicles, demand for such radar systems is expected to surge.

Roles of NCT and MCE. Under the partnership, NCT will provide full technology transfer, including product development support and setup of the radar production line. MCE will lead the local execution, leveraging its manufacturing expertise and infrastructure. The radar production line will be housed at the upcoming MCE Auto Hub in Serendah, expected to be operational by 2HCY25.

Stepping into the future of automotive. While still in the early stages, this JV is strategically significant. It marks MCE's entry into the ADAS and autonomous driving ecosystem, an area poised for exponential growth. It also underscores MCE's capability to partner with leading global technology players, reinforcing its value proposition as a high-quality electronics manufacturer. As ADAS adoption accelerates in ASEAN and beyond, MCE is now well-positioned to ride the next wave of automotive innovation.

A front row seat in Chery's local manufacturing ecosystem

On 14 May, MCE Holdings announced the signing of two Memoranda of Understanding (MoUs) with China-based companies Cheling Smart Mobility Technology (Cheling) and Wuhu Atech Automotive Electronics (Atech) to support Chery Malaysia's local production. Cheling and Atech, both based in Wuhu, China, are affiliated with Chery's smart mobility and automotive electronics ecosystem. Cheling is primarily engaged in the development and operation of smart mobility solutions, focusing on providing innovative services in the urban transportation sector. Atech specialises in the design, development, manufacturing, and sales of automotive electronic products.

Scope of collaboration. The MoUs outline areas of cooperation including:
(i) local production of automotive parts and components;
(ii) technology and know-how transfer from China to Malaysia;
(iii) strict compliance with Chery's global quality standards;
(iv) training and upskilling of the local workforce; and
(v) possible joint investment in tooling or facilities if needed.

Chery expansion footprint in Malaysia. Chery has a multi-phased and extensive expansion plans in Malaysia. Currently, it already operates two manufacturing facilities in Malaysia:

1) **Inokom Kulim Facility (Kedah):**
- Since August 2023, Chery has been assembling SUV models such as the Omoda 5, Tiggo 8 Pro, and Tiggo 7 Pro at Inokom's plant in Kulim.
- In November 2024, the plant began CKD assembly of the fully electric Omoda E5, marking the start of EV production in Malaysia.
- On 31 July 2025, the Tiggo Cross (Turbo and Hybrid variants) started rolling off the line at Kulim.

2) **Shah Alam Plant (Selangor):**
- Chery inaugurated its first own factory in August 2023 and rolled out the Jaecoo J7 in June 2024.
- The plant employs approximately 500 staff and includes an R&D centre and assembly line.
- Exports from Shah Alam began in late 2024/early 2025, aligning with Chery's goal to use Malaysia as a right-hand drive export hub for ASEAN, the UK, and Australia.

Planned mega-scale expansion: Chery Smart Auto Industrial Park. In February 2025, Chery signed a landmark RM2.2bn investment deal to develop the Chery Smart Auto Industrial Park, located in the Beringin High-Tech Auto Valley in Hulu Selangor. The 200-acre industrial park is scheduled for completion by 2026, with an initial output of 100,000 vehicles annually, scalable to 300,000 units. It will produce ICE, PHEV, BEV, and EEV models and include a dedicated R&D centre. The facility is designed to anchor Malaysia's emergence as an ASEAN regional automotive hub, leveraging export potential and supply chain development.

Strategic rationale for Chery's localisation drive. A core driver of Chery's aggressive expansion in Malaysia is the strong incentive framework tied to local manufacturing. Under the National Automotive Policy 2020, local assembly, localisation of components, and technology transfer are directly linked to excise duty exemptions and customised tax incentives. By localising production, including CKD assembly, sourcing parts domestically, and investing in R&D, Chery can significantly reduce its cost base while unlocking broader market access across ASEAN. This incentive-driven strategy also aligns with its "China + N" diversification, as Malaysia offers favourable trade access, policy support, and a growing EV ecosystem.

Why MCE is well-positioned to benefit? MCE's partnerships with Cheling and Atech, which are Chery's affiliated suppliers place it at the centre of Chery's localisation agenda. The MoUs cover local production, know-how transfer, and strict compliance with Chery's global standards. This strategic positioning showcases Chery's confidence in MCE's capabilities in mechatronics and electronics. Crucially, MCE's existing facilities, technical expertise, and workforce are sufficient and ready to cater to Chery's demand, hence, the collaboration requires minimal additional capital outlay. This lean setup not only accelerates time to production but also mitigates downside risk in the event of slower order ramp-up, preserving MCE's financial flexibility.

MoUs signal high strategic value. While the agreements are currently at the MoU stage, yet they are strategically significant. They mark MCE's entry into the localisation supply chain of a major global OEM and provide a clear runway to future business wins as Chery ramps up its manufacturing footprint in Malaysia. In our view, these partnerships lay a critical foundation for MCE to scale up alongside Chery's growth, enhance its export potential, and deepen its integration into the ASEAN automotive ecosystem.

Strategic entry into India via JV with Abhishek Electronics

On 25 Nov 2024, MCE entered into a JV with India-based Abhishek Electronics Manufacturing (Abhishek) to expand its footprint to India. The new entity will be incorporated in India, with MCE holding a 55% stake and Abhishek the remaining 45%.

Roles of MCE and Abhishek. The JV will focus on the manufacturing and marketing of key automotive electronic components, including reverse parking assistance systems, around-view monitoring, switch assemblies, and power window regulators for Indian OEMs. MCE will contribute product technology, technical know-how, and production setup capabilities, while Abhishek will facilitate market access,

regulatory approvals, utilities, and workforce mobilisation. MCE will also earn royalties from the use of its proprietary technologies.

Local partner as strategic enabler. While FDI in India's auto components sector permits up to 100% ownership by a foreign entity under the automatic route, partnering with a domestic company offers several advantages. These include improved market access, faster vendor development, and smoother operational setup. More importantly, a local JV structure supports alignment with India's "Make in India" localisation push, which is a key consideration for OEMs and policymakers seeking to deepen domestic manufacturing value chains.

Unlocking India's large market potential. The JV will only set up the facilities in Abhishek's factory upon securing a contract, which help mitigate upfront investment risk in the event of slower ramp-up. Currently, the JV is working on securing its first customer. A successful entry into India could be transformative for MCE, with the country ranking among the world's largest and fastest-growing automotive markets, recording over 4.2 million passenger vehicle sales in 2023–2024.

Key risks

We identify the following two key risks for MCE's business:

1) Trade policy risk: a persistent overhang

While the recent tariff agreement between Malaysia and the US, culminating in the reduction of reciprocal tariffs from 25% to 19%, effective 1 August 2025 offers near-term relief, it does not eliminate longer-term policy risks. Given President Trump's track record of using tariffs as a blunt instrument in trade negotiations, we believe these measures will remain an ongoing bargaining chip under Trump administration. One potential area of future contention is automotive trade barriers, particularly as the US continues to push for greater market access for its vehicles and parts. This poses a risk to Malaysia's long-standing framework that currently supports national carmakers such as Proton and Perodua, which are key customers of MCE.

That said, a mitigating factor lies in Malaysia's firm policy stance. Investment Minister Tengku Zafrul has publicly reiterated that while Malaysia remains open to trade discussions, there are "red lines that will not be crossed," especially when it comes to safeguarding strategic industries. This provides some assurance that core elements of Malaysia's automotive industrial policy, including import tariffs and excise structures, are likely to remain intact, at least in the near term. Nonetheless, we view trade policy as a structural overhang. Over time, this underscores the strategic need for MCE to diversify its customer and geographical exposure, which is something it is beginning to address via its export push and collaborations with global Tier-1 suppliers.

2) Implementation of Section 232 auto tariffs may reshape trade flows

The implementation of Section 232 tariffs on automobiles and auto parts, carries both risk and opportunities for MCE.

As of 3 April 2025, a 25% tariff was imposed on imported vehicles, followed by a similar 25% tariff on key automotive parts (e.g., engines, powertrains, electrical components) effective 3 May 2025. These measures are part of the US administration's push to reduce reliance on foreign supply chains and revitalise domestic automotive manufacturing.

A key concern lies in the erratic nature of the current administration's trade policy. Under Trump, tariff rates could escalate unpredictably beyond the current 25%, potentially making imported auto components economically prohibitive. If such tariffs were to remain high and consistent over the long term, they could encourage OEMs and Tier-1 suppliers with larger US footprints to onshore or expand domestic production capacity, gradually eroding the competitiveness of offshore vendors like MCE.

At the same time, the very nature of today's volatile trade environment marked by unpredictable tariff policies, shifting bilateral agreements, and rising geopolitical tensions also present an opportunity to MCE. The uncertainty and concentration risk in one manufacturing country is prompting multinational firms to adopt a multi-source, multi-location procurement strategy. MCE's ability to meet stringent international quality standards, coupled with its expanding manufacturing capabilities, positions it as a viable and resilient alternative supplier in global value chains. As trade and regulatory risks become a permanent fixture in global supply chains, MCE's diversified export customer base and growing global

reputation may become key strategic advantages, helping to offset the risks posed by protectionist trade policies like Section 232.

Financials

Financial review. MCE's financial performance underwent a notable improvement starting in FY22, following a period of sustained losses in the years prior. Up until FY21, the group was weighed down by weak sales from its key customer, Proton, which at the time was grappling with declining market share and a less competitive product lineup. Compounding this was MCE's high operating cost base, driven by substantial investments in human capital, particularly in strengthening its engineering and technical capabilities. The situation was further exacerbated in FY20–21 by pandemic-related disruptions, as production was halted for a cumulative period of five to six months across two rounds of Movement Control Orders (MCOs), further delaying earnings recovery.

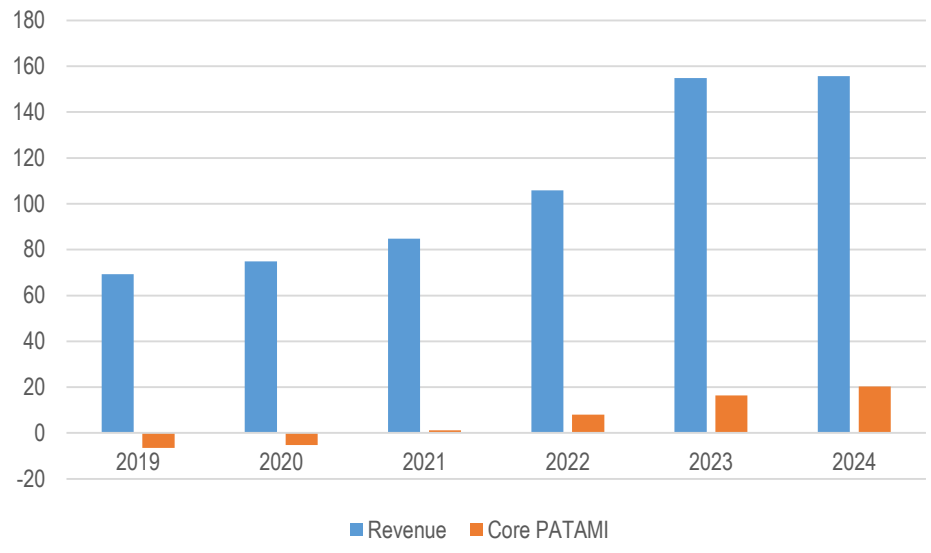
However, MCE's business saw a significant turnaround beginning in FY22 onwards. Revenue grew strongly by +24.8% YoY in FY22 and further accelerated by +46.4% YoY in FY23. This improvement was underpinned by two key factors:

i. **Proton's sales recovery**, driven by the strategic partnership with Geely. Since the Chinese automaker acquired a 49.9% stake in Proton in 2017, the national carmaker saw notable improvements in product design, technology, and market positioning. These changes translated into stronger vehicle sales in subsequent years, which in turn drove higher component orders for MCE.

ii. **Deeper supply relationship with Perodua**. During this period, MCE also secured more component supply programmes from Perodua. This expansion reflected Perodua's growing trust in MCE's technical capabilities and delivery track record, which led to a broader scope of parts being awarded.

The combination of stronger demand from key OEMs and improved operating leverage allowed MCE to return to profitability. The earlier investments in engineering talent and production capacity have begun to yield returns, positioning the group well to benefit from continued localisation and growth in the domestic automotive sector.

Figure #10 MCE revenue and core PATAMI (RM m)



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Strategic execution gaining traction. Perodua's decision to award MCE increasingly complex and technically demanding projects marked a pivotal moment in strengthening MCE's credibility in automotive electronics. This growing trust culminated in MCE securing a landmark contract to supply infotainment and ADAS components for Perodua's upcoming EV model. The win is significant on multiple fronts as it commands a substantially higher value per vehicle, marks MCE's first step into the EV supply chain, and opens the door to new, higher-value product segments in infotainment and ADAS

Beyond the domestic market, 2024–2025 saw MCE achieve a major breakthrough in exports, securing new US-based customers JVIS and Dorman. These wins expanded MCE's international footprint while diversifying its customer base and reducing reliance on any single market.

At the same time, the group continued to broaden its revenue mix through a 50:50 JV with Hong Kong-based Sounding Industries. This partnership marked MCE's first foray into non-automotive contract manufacturing, contributing to earnings stability by mitigating the cyclicality typical of the automotive sector.

Concurrently, MCE is laying the foundation for future growth in emerging high-value verticals. These include its entry into the Advanced Driver Assistance System (ADAS) segment via its JV with NCT, and its positioning within Chery's localisation supply chain through MoUs with affiliated suppliers. Lastly, MCE is progressing towards its entry into the Indian automotive market, where it is working to secure its first customer through its newly formed JV.

Figure #11 Key contracts secured by MCE in 2024 - 2025

Announcement date	Awarded by	Contract details	Contract value (RM m)	Duration (months)	Commencement date	Investment cost (RM m)
20-Jul-24	Proton	Supply various electronic and mechatronics components including front reading lamp, rear reflector, pull cup handle assembly for Proton vehicle.	52.1	60	1QFY26	2.2
23-Apr-25	Proton	Supply various mechanical and mechatronics components for Proton new car model.	9.8	60	1QFY26	0.2
19-Jul-24	Perodua	Supply various electronic and mechatronics components including multimedia display unit, instrument panel cluster, advanced driver-assistance system, functional switches, interior lightings and more for Perodua new EV.	19.6	36	2QFY26	12.8
23-Apr-25	Perodua	Supply various electronics and mechatronics components for Perodua for an EV model.	41.3	36	2QFY26	2.5
23-Apr-25		Supply various electronics and mechatronics components for Perodua for an ICE model.		72	1QFY27	
12-Mar-25	JVIS USA	Supply mechatronics components to JVIS USA LLC for a car model in the USA.	22.1	60	1QFY27	0.6
23-Apr-25	JVIS USA	Supply mechatronics components to JVIS USA LLC for a car model in the USA.	69.6	60	1QFY27	1.5

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9MFY25 results review. MCE reported 3QFY25 core PATAMI of RM6.7m (+129.1% QoQ; +112.5% YoY), which brings 9MFY25 core PATAMI to RM16.0m (+9.3% YoY). For 9MFY25, despite a –5.2% decline in revenue, core PATAMI rose +9.3%, driven mainly by higher interest income and lower effective tax rate. The higher interest income was a result of the higher cash balance as the group completed the disposal of a piece of land in Selangor for land sales proceeds amounting to RM43.7m.

FY26 – 27 growth trajectory. MCE is entering a multi-year growth phase supported by new revenue streams and customer diversification. In 1HFY26, the group is expected to begin recognising revenue from its US customer Dorman, as well as from its non-automotive JV with Sounding Industries. A more meaningful uplift is anticipated in 2HFY26 with the start of supply to Perodua's new EV model.

In FY27, the group will see the full-year impact from its Perodua EV contract, alongside the maiden contribution from JVIS. Revenue from Dorman and the non-automotive segment is also expected to scale progressively over time as orders ramp up.

Meanwhile, MCE's ongoing initiatives, including its ADAS-focused JV with NCT, localisation collaboration tied to Chery Malaysia, and efforts to penetrate the Indian OEM market, could translate into new contract wins in 2025–2026. These initiatives broaden MCE's exposure to high-growth verticals and provide optionality for further upside.

Forecast. We are forecasting FY25-27 core earnings to grow at a CAGR of 15.8% with estimated FY25/26/27 earnings of RM20.2/21.4/27.0m.

Balance sheet. MCE maintains a robust balance sheet, anchored by a net cash position of RM83.6m, equivalent to 59.8 sen per share. This represents around 42% of its current market capitalisation, providing ample financial flexibility to fund growth initiatives and weather external shocks.

Dividend. While MCE does not have a formal dividend policy, its strong cash reserves and the fact that it is nearing the end of its capex cycle, with the Serendah plant close to completion suggest an increasing capacity for shareholder distribution. This was evident in the recently declared first interim dividend of 6 sen per share in 2QFY25, translating to a generous 53.1% payout of its 1HFY25 PATAMI. Moving forward, the healthy cash position, coupled with improving earnings visibility, supports the case for a sustainable and possibly higher dividend payout.

Warrants and dilution impact. MCE completed a 1-for-2 free warrants issue, which went ex on 11 Jan 2024, with an exercise price of RM0.80, a 1-to-1 conversion ratio and an expiry date of 15 Jan 2029. Given that the warrants are in the money, coupled with the expectation that the group will continue rewarding shareholders with generous dividends, we believe there is incentive for warrant holders to gradually convert their warrants into mother shares over time, both to lock in capital gains and to become eligible for future dividend entitlements. On a fully diluted basis, assuming full warrant conversion, the share base would expand to 197.7m shares, implying a dilution of approximately 29.6% from the current outstanding base.

Valuation & Recommendation

Peers comparison

Closest domestic peer: Betamek. Both MCE and Betamek manufacture automotive electronics (including infotainment). The key differentiator is customer concentration: Betamek's revenue is predominantly from one OEM (Perodua), while MCE's base is broadening (Perodua, Proton, Toyota exports, plus US customers like Dorman/JVIS and new JVs). That diversification lowers earnings risk and supports a higher earnings quality as MCE scales into exports and higher-value content.

Regional read-across to gauge upside:

- **Minda Corporation (India)**—much larger, but strategically similar: expanding in electronic controllers, mechatronics and EV electronics, leveraging localisation, and partnering with global tech players. It offers a roadmap for how MCE could scale its mix and margins as content per car rises.
- **Whetron (Taiwan)**—focuses on active safety/ADAS sensors, cameras and parking systems for global OEMs (Honda, Toyota, Ford, GM, Mazda, Nissan).
- **E-Lead (Taiwan)**—strong in infotainment, HUD, AVM and safety electronics.

Whetron and E-Lead compete directly in product spaces that MCE is entering (infotainment, ADAS radar), providing relevant benchmarks for technology content, ASPs and margin potential.

Valuation. MCE's historical P/E band is not a useful anchor to value the stock given pre-FY21 losses and a low earnings base inflated headline multiples (50–80×) in the early days of turnaround. Additionally, the business mix has also since shifted towards higher-value electronics. A peer framework is more appropriate. Given limited coverage on the peer stocks and hence the absence of earnings forecasts, we benchmark against trailing twelve months (TTM) metrics. Domestically, Betamek trades at ~7.5x P/E; regionally, electronics/ADAS peers trade in a ~12.3–44.2x range. We think MCE should trade above Betamek (lower customer concentration, broader export and product roadmap, entry into EV infotainment/ADAS) but below regional names (smaller scale and earlier in the ramp).

On that basis, we apply 15x P/E (below the simple peer average ~18.8x) to a forward earnings horizon that captures the earnings ramp up. We peg valuation to mid-FY27 (FYE Jul) to reflect key catalysts: first full-year contribution from Perodua EV infotainment, JVIS starting in FY27, ongoing Dorman scaling, and non-auto JV revenue.

For share base, we partially dilute for warrants. With 6.4% of the warrants already exercised, in-the-money pricing, and dividend eligibility encouraging conversion, we assume 25% warrant exercise. As a result, we derive a fair value of RM2.40 based on 15x PE on mid-FY27 partially diluted EPS of 16 sen.

Figure #12 Peers comparison - financials

	MCE	Betamek	Minda Corp	Whetron Electronics	E-lead electronics
Information for FYE	31-Jul-24	31-Mar-25	31-Mar-25	31-Dec-24	31-Dec-24
Listing market	Main market, Bursa	Ace Market, Bursa	Bombay Stock Exchange National Stock Exchange of India	Taipei Exchange	Taiwan Stock Exchange
Revenue (RM m)	155.7	238.3	2457.8	746.5	658.1
PBT (RM m)	21.6	32.0	162.1	35	66.1
PBT margin	13.9%	13.4%	6.6%	4.7%	10.0%
Net gearing	Net cash	Net cash	56.7%	15.5%	Net cash

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Figure #13 Peers comparison - valuation

	Price (local)	Market cap (RM m)	TTM P/E	Latest P/B
MCE	1.45	202.83	10.5	1.19
Betamek	0.43	193.50	7.5	1.29
Minda	461.65	5,343.80	44.2	5.01
Whetron	50.2	557.00	19.3	1.91
E-lead Electronics	40.6	709.22	12.3	1.89
Simple average			**18.8**	**2.26**

HLIB Research, closing price as at 7 Aug 2025

Right place at the right time

We initiate coverage on MCE with a BUY rating and a TP of RM2.40, based on 15x PE on mid-FY27 partially diluted EPS of 16 sen.

We believe MCE is approaching a defining inflection point. After years of deliberate investment in engineering talent and technology development, the group is now strategically positioned to capitalise on a wave of structural changes in the automotive landscape. Multiple earnings catalysts are set to unfold over the next few years, ranging from new EV-related contracts to high-value electronics, exports, and non-automotive ventures, that will collectively elevate MCE's earnings profile to a new level.

Malaysia's auto industry is entering a new phase, with national policy shifting decisively toward localisation and high-value, high-tech manufacturing. As CBU imports gradually give way to CKD assembly, and localisation efforts extend deeper into complex, compact electronic components, MCE's specialised expertise places it in the sweet spot of this transition. In our view, MCE is poised to become a key enabler of Malaysia's next wave of automotive industrialisation, helping anchor a supply chain increasingly defined by smart systems, electronics, and value-added content.

At the same time, global macro trends are aligning in MCE's favour. Malaysia's emergence as a regional automotive hub fits squarely within the global "China + N" supply chain diversification strategy. Several international OEMs have already selected Malaysia as a regional base, and the industry's growing push to de-risk and diversify sourcing further increases demand for agile, technically capable suppliers like MCE. These trends create a long runway of opportunity, and MCE is moving proactively to capture them through strategic JVs and market expansion.

Lastly, unlike automakers, which face relentless competition, short product cycles and constant reinvestment needs, component manufacturers like MCE offer a more resilient and attractive exposure to the automotive value chain. Once a supplier is embedded into an OEM programme, switching is rare due to strict qualification processes, engineering integration and cost considerations. For MCE, its core customers Proton and Perodua, which together command over 60% of Malaysia's domestic market share provide a stable and resilient earnings base. This is in contrast to foreign OEMs in the domestic market whose sales are typically more volatile and competitive. This strong domestic anchor allows MCE to build incremental growth through new customer wins and diversification into export markets. In a landscape where car brands may gain or lose market share rapidly, quality component suppliers with a technical edge and an expanding customer base like MCE are well positioned to benefit regardless of which OEM comes out ahead. As such, we believe MCE offers a smarter and more stable way to participate in the structural growth of the automotive industry.

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Stock rating guidelines

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guidelines

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guidelines as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.